DOCKET NO. CV-02-814173-S

: SUPERIOR COURT

:

THE CONNECTICUT SURETY COMPANY, IN LIQUIDATION

JUDICIAL DISTRICT OF

HARTFORD

:

: AT HARTFORD

:

MAY 16, 2003

LIQUIDATOR'S FIRST REPORT

To the Superior Court for the Judicial District of Hartford at Hartford comes Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, in her capacity as Liquidator of The Connecticut Surety Company ("CSC"), and presents her First Report pursuant to Connecticut General Statute § 38a-920 and paragraph 28 of the Order of Liquidation entered by this Court on May 17, 2002, for the period commencing May 17, 2002 and ending May 16, 2003 as follows:

1. CSC was a Connecticut-domiciled surety company that issued commercial and contract surety and fidelity bonds. CSC's principal offices were located at 100 Pearl Street, 16th Floor, Hartford, Connecticut. CSC was a wholly owned subsidiary of the Connecticut Surety Corporation, a Delaware corporation (the "Holding Company"), and was part of the Connecticut Surety Insurance Company holding company system that included the Connecticut Surety Insurance Agency, Inc. ("CSIA"), the Connecticut Surety Insurance Agency of Arizona, Inc. ("CSIA-AZ"), the Connecticut Surety Insurance Agency of Nevada, Inc. ("CSIA-NV"), Bonds II Surety Group, Inc. ("Bonds II"), and Funds Management, Inc. ("FMI" and, together with the

"Holding Company", the "Affiliates"). CSC was licensed to transact the business of insurance in Connecticut, 25 other states and the District of Columbia. CSC's gross written premium for 2001 was \$2,052,486.

2. CSC and the Affiliates operated as an integrated organization, sharing office space, personnel and cash management systems. CSC wrote virtually all of its bonds through its four Affiliate agencies, CSIA, CSIA-AZ, CSIA-NV and Bonds II (collectively, the "Affiliate Agencies").

Events leading up to these proceedings.

- 3. As a result of a regular quarterly review of CSC's financial reports, the Connecticut Insurance Department (the "Department") became concerned about CSC's financial condition. The Department thereafter conducted on-site examinations of CSC and identified both operational and financial problems at CSC. The Department determined that CSC could not continue to operate in the manner it was operating, and accordingly issued an order of supervision (the "Supervision Order") for CSC on June 26, 2001.
- 4. Shortly after the entry of the Supervision Order, the Holding Company undertook to find a purchaser for CSC and the Affiliate Agencies. In late 2001, the Holding Company determined to enter into a transaction with Capital Indemnity Corporation ("Capitol") which is a subsidiary of Alleghany Capitol Corporation. The Holding Company, on behalf of itself, CSC and the Affiliate Agencies, entered into an asset purchase agreement (the "Asset Purchase Agreement") with the Capitol. Under the terms of the Asset Purchase Agreement, Capitol purchased from the Holding Company certain tangible assets and software and an option to

purchase the stock of CSC. Capitol also assumed certain lease and payroll obligations of CSC. Capitol now occupies CSC's former offices in Hartford, Connecticut.

- 5. Simultaneous with the Asset Purchase Agreement, Capitol entered into a Renewal Rights Agreement (the "Renewal Rights Agreement" and, together with the "Asset Purchase Agreement", the "Capitol Transaction") with the Holding Company, CSC and CSIA, whereby Capitol purchased the right to renew CSC bonds in the name of Capitol. As part of the consideration under the Renewal Rights Agreement, Capitol agreed to assist CSC in the runoff of CSC's business at no cost to CSC.
- 6. The Department was aware of the negotiations leading up to the Capitol Transaction and approved of the Capitol Transaction. The Department expected that after the closing of the Capitol Transaction, it would commence rehabilitation proceedings with respect to CSC.

The Order of Rehabilitation.

- 7. On February 6, 2002, a consensual Order of Rehabilitation (the "Rehabilitation Order") was entered which placed CSC into rehabilitation proceedings pursuant to Conn. Gen. Stat. §§ 38a-903 38a-961, inclusive, and appointed the Insurance Commissioner of the State of Connecticut as rehabilitator (the "Rehabilitator") of CSC.
- 8. Following the entry of the Rehabilitation Order, the Rehabilitator and her staff continued to investigate the financial condition of CSC and attempted to marshal its assets for the purpose of running off its liabilities in the ordinary course of business. During this period, the Rehabilitator became aware of claims and liabilities that had not previously been reserved or recorded in CSC's financial statements. In addition, the Department determined that it would be

unable to readily access substantial cash deposits that were being held by other state insurance regulators as a condition to CSC doing business in those states. Accordingly, the Department determined that it was highly uncertain whether CSC would have sufficient assets to continue to pay claims and liabilities in the ordinary course. Accordingly, the Rehabilitator determined that it was in the best interest of CSC's policyholders, its creditors, and the estate of CSC to commence a liquidation proceeding for CSC.

The Order of Liquidation.

9. On May 17, 2002, this Court entered an Order of Liquidation (the "Liquidation Order") with respect to CSC. The Liquidation Order provided, among other things, for the Liquidator (i) to maintain or immediately take exclusive possession and control of all property of CSC, wherever located, and to liquidate the same pursuant to the provisions of Connecticut law; and (ii) to take such actions as the nature of the case and interests of the policyholders, CSC's creditors, the stockholders of CSC, and the public may require. Pursuant to the Liquidation Order, all CSC bonds were cancelled not later than June 16, 2002 (the "CSC Bond Cancellation Date"). The Liquidation Order also established a bar date (the "Bar Date") of November 15, 2002, by which time proofs of claim for all claims against CSC were to be filed.

Administration of the Estate.

A. Personnel and facilities.

10. The Liquidator has operated the estate from the Hartford, Connecticut premises where CSC (and now Capitol) historically operated. Under the Capitol Transaction, the Liquidator and her staff are entitled to occupy the premises and have access to the records of

CSC free of charge until the earlier of December 31, 2004, or the date on which CSC is no longer operating under the Liquidation Order.

- of the closing of the Capitol Transaction, and the remaining employees were terminated during the Rehabilitation. The Liquidator has retained consultants and professionals to assist in the Liquidation as needed. The Liquidator has engaged the law firm of Bingham McCutchen LLP to provide legal services to the Liquidator and the estate.
- 12. The Liquidator entered into a consulting agreement with Timothy J. Supple, a former Vice President of CSC, for the period July 1, 2002 through March 31, 2003. During the term of the agreement, Mr. Supple provided extensive background information and support to the Liquidator in identifying the relevant assets and liabilities of the estate. Mr. Supple also undertook the review and analysis of approximately 60 proofs of claim that had been filed against the estate. Many of these were complex claims. Mr. Supple's consulting agreement has expired, but will be continued in a modified form under which Mr. Supple will pursue and collect unpaid construction bond premiums and will continue to resolve claims previously assigned to him.
- 13. The Liquidator entered into a consulting agreement with Karen Skog who was formerly employed by CSIA. Ms. Skog provides various services to the Liquidator. Ms. Skog has prepared and filed all past due premium tax returns and is expected to review and analyze all proofs of claim for unearned premiums.

- 14. The Liquidator has entered into a claims management agreement (the "Claims Management Agreement") with Forcon International Nevada, Ltd. and Forcon International N.E., LLC (collectively, "Forcon"). Under the terms of the Claims Management Agreement, Forcon manages commercial and contract bond claims arising out of or relating to bonds issued by CSC, and provides recovery services relating to those bonds. As part of its recovery services, Forcon is required to pursue all reasonable possibilities of exoneration, subrogation, contribution, mitigation and indemnity with respect to the CSC bonds. Forcon has been assigned approximately 230 proofs of claim for losses under bonds.
- 15. Forcon was selected to provide services to the Liquidator after the Liquidator sent out requests for proposal to various claims administrators. Forcon was selected based on price as well as prior experience with CSC and its claims.
- 16. The Liquidator has retained Romualdo Polce as an accounting consultant to the Liquidator, through Robert Half Management Resources. Mr. Polce has extensive insurance accounting experience and provided services to CSC as a consultant for approximately seven months prior to the commencement of these receivership proceedings. As such, Mr. Polce has familiarity with CSC and its financial affairs. Mr. Polce has performed a variety of accounting services including the compilation of financial statements, reconciliation of bank records and analysis of premium records.
- 17. The Liquidator has retained Michael C. Warren of the Warren Group as a tax consultant to the Liquidator. Mr. Warren specializes in tax and accounting matters for insurance companies in receivership.

B. Initial steps to secure the estate.

- 18. Immediately after the entry of the Rehabilitation Order, the Rehabilitator took steps to take control of all bank accounts and securities accounts of CSC wherever located. Authorized signatories on all accounts were changed to personnel under the control of the Rehabilitator. The Liquidator has continued such arrangements. In addition, certain accounts have been closed and funds have been deposited in the Connecticut Short Term Investment Fund managed by the Treasurer of the State of Connecticut.
- 19. The Liquidator contacted approximately 520 CSC producers notifying the producers that they were prohibited from issuing or renewing bonds in the name of CSC, and instructing them to immediately return all powers of attorney, seals and other indicia of authority. These actions were undertaken to minimize the possibility that unauthorized bonds would be issued in the name of CSC.
- 20. The Liquidator has worked with guaranty associations in Arkansas, Minnesota, New York and Tennessee (the "Guaranty Associations") to transfer claim files and related information to them. The Guaranty Associations provide payment of an insolvent surety's covered bond loss claims and unearned premium claims to residents of their states, subject to certain limitations.

C. Marshaling CSC's assets.

21. The Liquidator has made substantial efforts to collect funds held on deposit in those states in which CSC was required to make a deposit as a condition to transacting business. To date, the Liquidator has obtained the return of deposits totaling \$1,412,202.04 held

by Alaska, Arizona, Delaware and South Carolina. The Liquidator anticipates that she will collect \$35,000 from Georgia within the next several weeks. Oregon has agreed to release \$260,000 to the Liquidator provided that the Liquidator first pay Oregon claimants out of those funds. The remaining balance will be available to pay other claimants. Arkansas, Florida, Massachusetts and Nevada hold deposits in the aggregate amount of \$1,100,000. The Liquidator continues to pursue those states for the release of CSC's deposits.

- 22. From reviewing proofs of claim, the Liquidator has identified those claims that are likely to give rise to claims by CSC against reinsurers under its reinsurance agreements. The Liquidator has notified and continues to notify reinsurers of each claim that may be covered by their agreements. Reinsurance is a substantial asset of the estate because CSC reinsured the entire risk under all bonds issued or renewed after June 1, 2000.
- 23. The Liquidator has collected a portion of the purchase price that is still owing under the Capitol Transaction. There are still amounts currently owed under the Capitol Transaction and there are amounts that will become due in the future. The Liquidator intends to take legal action in the near future to collect the amounts owing if they remain unpaid.
- 24. The Liquidator has collected certain premiums owed with respect to bonds issued by Capitol. However, other premiums that have been paid by customers are effectively frozen at present because they are held in accounts controlled by CSIA and Capitol. The Liquidator has developed a plan to collect these premiums discussed in Section F below.

D. Management of CSC's liabilities.

- On or about May 24, 2002, the Liquidator sent notice of the Bar Date and the CSC claims process, along with a proof of claim form, to all persons or entities known or reasonably expected to have claims against, or an interest in, CSC. In addition, notice of the Bar Date and the CSC claims process appeared in The Hartford Courant on May 24, 2002, and on the Department's website. Proof of claim forms also were available through the Department's website.
- 26. As of May 6, 2003, approximately 1,094 proofs of claim (the "CSC Proofs of Claim") were filed with the Liquidator. The CSC Proofs of Claim are comprised of various classes of claims, as defined by Conn. Gen. Stat. § 38a-944 as follows:
 - (a) Claims for loss under a CSC bond (the "Bond Loss Claims").

 Approximately 329 Bond Loss Claims have been filed with the Liquidator. 296 Bond Loss Claims were filed in the aggregate stated amount of \$5,100,142.57. 22 Bond Loss Claims were filed in an unstated amount. The aggregate bond penalty on Bond Loss Claims filed in an unstated amount is approximately \$2,020,050.00. Another 11 claims were filed by various guaranty funds in unstated amounts. To date, the Liquidator has assigned Bond Loss Claims to the Arkansas and New York guaranty funds only. Those claims have an aggregate bond penalty of \$455,000.00. In addition, 22 Bond Loss Claims were filed with the Liquidator after the Bar Date. Of the late-filed Bond Loss Claims, 21 were filed in the aggregate amount of \$214,760.36; one was filed in an unstated amount. Reserves on Bond Loss Claims currently are estimated at

\$2,675,450.47. This compares to \$261,563.13 which was carried as the reserves for bond losses on CSC's books prior to the commencement of this receivership. Bond Loss Claims assigned to a guaranty fund have been reserved for the full bond penalty of \$455,000.00. That amount may change as information on those claims becomes available to the Liquidator. Timely filed Bond Loss Claims are class 3 claims. Late filed claims may be disallowed in their entirety.

- (b) Claims for unearned premium (the "Unearned Premium Claims").

 Approximately 683 Unearned Premium Claims were filed with the Liquidator. 406

 Unearned Premium Claims were filed in the aggregate amount of \$118,006.24. 277

 Unearned Premium Claims were filed in an unstated amount. An additional three Unearned Premium Claims were filed with the Liquidator after the Bar Date. Of those, one late-filed Unearned Premium Claim was filed in the amount of \$680.00. Two late-filed Unearned Premium Claims were filed in an unstated amount. Reserves on Unearned Premium Claims currently are estimated at \$230,980.58. Timely filed Unearned Premium Claims are class 3 claims. Late filed claims may be disallowed in their entirety.
- (c) <u>Collateral release claims.</u> Certain of CSC's customers were required to provide collateral to secure their obligations to indemnify CSC against loss on bonds issued by CSC. Three proofs of claim have been filed for the release of collateral. Collateral cannot be released until the Liquidator determines that no claims have been or can be filed against the bonds to which the collateral relates.

- (d) General creditor claims (the "General Creditor Claims"). Approximately 46 General Creditor Claims were filed with the Liquidator. Of those, 40 General Creditor Claims were filed in the aggregate stated amount of \$13,082,892.61. An additional 6 General Creditor Claims were filed in an unstated amount. One General Creditor Claim was filed after the Bar Date in an unstated amount. A review of the General Creditor Claims indicates that certain claims include claims against one or more of the Affiliates, or were filed with respect to certain subordinated surplus notes issued by CSC (as discussed below in subsection (f)). Accordingly, reserves on General Creditor Claims currently are estimated at \$5,328,841.91. General Creditor Claims are class 6 claims. Late filed claims may be disallowed in their entirety.
- (e) <u>Claims of state and local governments.</u> Seven claims were filed by state and local governments for premium, corporate and other taxes in the aggregate stated amount of \$20,089.69. Reserves on state and local government claims currently are estimated at \$20,089.69. Claims of state and local governments are class 7 claims.
- (f) <u>Subordinated surplus notes (the "Notes").</u> Three proofs of claim filed with the Liquidator included claims with respect to Notes issued by CSC. The Notes underlying those claims are in the aggregate face amount of \$4,211,667.00. Accrued interest on the Notes through the date of the Liquidation Order totals \$542,309.29. Reserves on the Notes currently are estimated at \$4,753,976.29. The Notes are class 8 claims.

To date, the Liquidator has resolved one substantial claim. On March 12, 2003, the Court approved a settlement agreement entered by the Liquidator and claimants Gustavo Gortarez, Manueal Gortarez, Jesus Montoya, Jose Alvarado, German Baires, Ricardo Higuerta Pena, Nicolas Ramos Gonzales, Justo Lopez, Miguel Medina, Juan Mendoza, Chester Pak, Ivan Rodas, Joel Segura, Femin Sorto, Oscar Trejos, and Rigoberto Vasquez. The claimants filed a proof of claim (claim number CSC3044516-B1) relating to a payment bond executed by CSC on behalf of CNS Engineering & Construction, Inc. ("CNS") in conjunction with a construction contract that CNS had entered with the City of Oxnard, California. The claimants alleged that they were not paid for labor that they furnished to the project as employees of CNS and its subcontractors. Pursuant to the terms of the settlement agreement, the claimants' claim has been allowed in the amount of \$425,000 as a class 3 claim.

E. Issues in the wake of the Capitol Transaction.

28. The closing of the Capitol Transaction was followed by two unexpected series of events that have caused substantial difficulty in the administration of the estate. First, the shareholders and management of the Holding Company abandoned it and the Affiliates. The management and directors resigned, leaving the companies without the ability to perform even normal corporate tasks. As such there is no one to wind up their affairs. This has proven problematic for the Liquidator because the Affiliate Agencies are in possession of bank accounts that contain CSC premium and CSC collateral. It is also problematic because the Holding Company filed consolidated federal tax returns for the group and CSC is unable to complete the required federal tax returns absent cooperation from the Holding Company.

- 29. Second, Capitol did not have the infrastructure to continue the business which it had purchased without the continued use of the infrastructure of CSC and the Affiliate Agencies. As such, Capitol continued to write surety bonds in the name of CSC after CSC went into receivership. It also continued to bill CSC's receivables (even though it had no right to do so) and deposited the collections in bank accounts of the Affiliate Agencies and its own bank accounts. In billing CSC's receivables, Capitol permitted producers to remit the premium net of commission even though Connecticut law (Conn. Gen. Stat. § 38a-935(a)(1)) and this Court's injunction under paragraph 23 of the Liquidation Order prohibits producers from setting off their commission after the commencement of the liquidation proceedings.
- 30. The Liquidator has attempted to resolve the problems created by the conduct of the Holding Company's shareholders and management, and the misconduct of Capitol without the necessity of litigation against them.
- 31. To that end, the Liquidator has entered into a reinsurance agreement with Platte River Insurance Company ("Platte River") an affiliate of Capitol, under which Platte River assumed the entire risk of all bonds, undertakings, guarantees, indemnities, binders or other obligations, first issued or renewed in the name of CSC from January 31, 2002 through June 16, 2002 (the "Post Asset Sale Bonds"). Under the agreement, the Liquidator assigned and Platte River assumed sole responsibility for the payment of all losses and loss adjustment expenses related to the Post Asset Sale Bonds, as well as the administration and servicing of all aspects of those bonds. Platte River is required to make payment on any award or settlement directly to claimants under Post Asset Sale Bonds.

32. There are other issues related to the conduct of Capitol after the closing of the Capitol Transaction that are the subject of dispute between the Liquidator and Capitol. The Liquidator is currently attempting to resolve all remaining disputes with Capitol, but is highly uncertain as to whether she will be able to do so without the commencement of legal action or regulatory proceedings.

F. Motion for Substantive Consolidation.

- As a result of the abandonment of the Holding Company and the Affiliate Agencies by their management and shareholders, the Liquidator has determined that she will need to wind up the affairs of the Affiliates as part of the receivership proceedings of CSC. To that end, on April 30, 2003, the Liquidator filed with this Court a Motion for Substantive Consolidation of The Connecticut Surety Company and its Affiliates (the "Motion for Substantive Consolidation"). A hearing will be held on the Motion for Substantive Consolidation on May 29, 2003.
- 34. In the event that the Motion for Substantive Consolidation is granted, the assets and liabilities of the Affiliates will be pooled with those of CSC, and the Liquidator will have the authority to wind up the affairs of the Affiliates in conjunction with the winding up of CSC. Among other things, this will enable the Liquidator to take control of CSC premium and collateral held in accounts of the Affiliate Agencies.

G. Financial Statements.

35. The balance sheet as of March 31, 2003 shows assets of \$6,152,664.20 and liabilities of \$14,675,211.20. The statement of receipts and disbursements for the period of

February 6, 2003 through March 31, 2003 shows receipts of \$1,878,147.52 and disbursements of \$1,510,779.23.

Assets.

- 36. Short-term investments, which total \$987,741.44, include funds held at FleetBoston Financial Corporation and in the Short Term Investment Fund managed by the Treasurer of the State of Connecticut.
- 37. Reinsurance recoverables are approximately \$1,280,599.10, and are based on current reserves for claims likely to be covered under certain reinsurance agreements. Estimated reinsurance recoverables may change significantly as reserves develop and as the Liquidator obtains more definitive information concerning the precise dates of loss with respect to certain bond claims.
- 38. The premiums and agents balances in the course of collection are approximately \$207,681.43, and represent premiums held in trust by CSIA and Capitol, as discussed more fully in Section E.
- 39. Securities on deposit held as either bonds or money market funds are deposits held by various states. CSC made these deposits as a condition to operating in those states. These deposits are available to pay Class 3 claims. However, there are disputes between the Liquidator and certain of the states as to whether the funds held by a state must be used to first pay in full the claims of the residents of that state.
- 40. Funds held for others total approximately \$953,190.83. These funds include funds held in trust by CSC with respect to the film completion bond business entered into

by CSC, Worldwide Film Completion, Inc., and certain other sureties. Ownership of certain of the film completion bond funds is in dispute. Accordingly, the Liquidator is likely to take legal action to determine ownership of those funds.

41. Funds held for others also include funds held by the Liquidator that are owed to reinsurers on behalf of third parties.

Liabilities.

- 42. Class 2 administrative expenses of the Guaranty Funds currently are estimated at \$50,000.00. This amount will change as the two Guaranty Funds that have taken over the handling and payment of claims by policyholders in their states provide the Liquidator with additional information regarding their administrative expenses.
- Guaranty Fund claims (other than class 2 claims) which total approximately \$3,361,431.05. Of that, \$2,675,450.47 represents reserves on timely filed Bond Loss Claims, \$230,980.58 represents reserves on Unearned Premium Claims, and \$455,000 represents reserves on class 3 claims assigned to the Arkansas and New York guaranty funds for management.
- \$5,328,841.91. This amount is the Liquidator's best estimate of the class 6 claims based on the claims filed with the Liquidator and the Liquidator's review of the accounting and reinsurance records of CSC.

- 45. Class 7 state and local government claims are \$20,089.69. This amount is the Liquidator's best estimate of the class 7 claims based on the claims filed with the Liquidator and the Liquidator's review of the accounting and tax records of CSC.
- estimated to be \$4,753,976.20. This amount is the Liquidator's best estimate of the class 8 claims filed with the Liquidator and the Liquidator's calculation of interest accrued on those notes through May 17, 2002.
- 47. Amounts due reinsurers represents premium that the Liquidator anticipates will be paid to reinsurers in connection with CSC's quota share reinsurance program. The amounts are the same as the amounts of premiums and agents balances in the course of collection shown as an asset.

Statement of Receipts and Disbursements.

- 48. Proceeds from the Capitol Transaction, described in paragraphs 3 through 5 and paragraph 23, total \$185,022.93.
- 49. Loss adjustment expenses represent fees paid to third party administrators for management of the Bond Loss Claims. The majority of the loss adjustment expenses are one-time payments for the management of the Bond Loss Claims throughout the life of the claims, and therefore will benefit the estate throughout the course of these proceedings.
- 50. Consulting fees, which total \$293,053.42, were paid to consultants Karen Skog and Romualdo Polce for services provided to the Liquidator as described in paragraphs 13 and 16, respectively.

H. Conclusion.

During the first year of this liquidation proceeding, the Liquidator has accomplished a great deal. All claims have been received and are in the process of being adjusted. Reinsurers have been notified and many of the deposits with the various states have been collected. On the basis of the data currently available, there is a substantial possibility that there will be sufficient funds to pay all policyholders in full. The Liquidator hopes to be in a position to make at least a partial distribution to the holders of allowed policyholder claims prior to the filing of the next annual report in this case.

Respectfully submitted this // day of May 2003.

Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, as Liquidator of The Connecticut Surety Company

THE CONNECTICUT SURETY COMPANY IN LIQUIDATION BALANCE SHEET As of 02/06/02 and 3/31/03

Date Placed in Rehabilitation: February 6, 2002

Cash Short Term Investments	Date Placed In Liqu	idation: May 17, 2002	As of 02/06/02	As of 3/31/03
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Advances to Guaranty Associations	Bonds		0.00	0.00
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Fees Receivable from Capitol Indemnity 0.00 4.43,25.4	Accrued Investmen	t Income	94,375.97	15,255.27
Funds Held by Reinsurers	Other Assets:	·		
Funiture	Fees Re	eceivable from Capitol Indemnity		=
Data Processing Equipment 0.00		•		
Restricted Assets: Securities on Deposit Held as Bonds Securities on Deposit Held as Cash or MMF's 3,080,125.51 1,765,115.00 Securities on Deposit Held as Cash or MMF's 847,229.33 737,364,79.62 737,364,79.63 737,364,79.63 737,364,79.63 737,364,79.63 737,364,79.63 737,364,79.63 737,364,79.62 737,364,7		· ·		
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Securities on Deposit Held as Bonds 3,080,125.51 1,785,115.00 Securities on Deposit Held as Cash or MMF's 344,729.33 737,364.79 730,84.79 730,84.79 730,84.79 730,84.79 730,84.79 730,80.50 730,84.79 730,80.50 730,84.79 730,80.50 730,84.79 730,80.50 730,84.79 730,80.50 730,84.79 730,80.50 730,80.		Total Unrestricted Assets	2,127,655.32	2,676,993.58
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Punds Held For Others		, ·		, ,
Total Assets 4,862,160.44 3,475,670.62		·	•	
Claims Administrative Expenses (C.G.S. Section 38a-944(a)(1)) 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.0	ruius r			
Claims Secured Claims: Administrative Expenses (C.G.S. Section 38a-944(a)(1)) 0.00	Total Assets		6,989,815.76	6,152,664.20
Claims Secured Claims: Administrative Expenses (C.G.S. Section 38a-944(a)(1)) 0.00	•			
Secured Claims:		LIABILITIES		
Class 1 Claims: Administrative Expenses (C.G.S. Section 38a-944(a)(1))			0.00	0.00
Class 2 Claims: Administrative Expenses of Guaranty Associations (C.G.S. Section 38a-944(a)(2)) 0.00 0.00 0.00		Administrative European (C.C.S. Postion 39a 044(a)(4))		
Class 3 Claims: Policy Holder Claims, Third-Party Loss Claims, Unearned Premium Claims, 3,361,431.05 8 Guaranty Assoc. Claims other than those in class 2 (C.G.S. Section 38a-944(a)(3)) Class 4 Claims: Federal Government Claims not eligible for inclusion in Class 3 0.00 0.00 0.00 (C.G.S. Section 38a-944(a)(4))				•
Class 4 Claims: Federal Government Claims not eligible for inclusion in Class 3 0.00				
Class 5 Claims: Employee Compensation Claims (C.G.S. Section 38a-944(a)(5)) 0.00 0.00	Class 5 Ciairis.	& Guaranty Assoc. Claims other than those in class 2 (C.G.S. Section 38a-944		5,551,751.55
Class 6 Claims: General Creditor Claims, Reinsurance Claims, & Non-Policy Claims (C.G.S. Section 38a-944(a)(6)) Class 7 Claims: State or Local Government Claims not eligible for inclusion in Class 4 20,089.69 (C.G.S. Section 38a-944(a)(7)) Class 8 Claims: Claims Based on Surplus or Contribution Notes, or Similar Obligations, Premium Refunds on Assessable Policies, & Interest on Claims of Claims of Shareholders & Other Owners in their Capacity as Shareholders 0.00 0.00 or Owners (C.G.S. Section 38a-944(a)(9)) Total Claims Received	Class 4 Claims:	(C.G.S. Section 38a-944(a)(4))	0.00	0.00
Claims (C.G.S. Section 38a-944(a)(6)) Class 7 Claims: State or Local Government Claims not eligible for inclusion in Class 4 20,089.69 20,089.69 (C.G.S. Section 38a-944(a)(7)) Class 8 Claims: Claims Based on Surplus or Contribution Notes, or Similar Obligations,	Class 5 Claims:	Employee Compensation Claims (C.G.S. Section 38a-944(a)(5))	0.00	0.00
Class 7 Claims: State or Local Government Claims not eligible for inclusion in Class 4 20,089.69 20,089.69 (C.G.S. Section 38a-944(a)(7))	Class 6 Claims:		5,328,841.91	5,328,84191
Class 8 Claims: Claims Based on Surplus or Contribution Notes, or Similar Obligations, Premium Refunds on Assessable Policies, & Interest on Claims of Classes 1 through 7 (C.G.S. Section 38a-944(a)(8)) Claims of Shareholders & Other Owners in their Capacity as Shareholders or Owners (C.G.S. Section 38a-944(a)(9)) Total Claims Received	Class 7 Claims:	State or Local Government Claims not eligible for inclusion in Class 4	20,089.69	20,089.69
Classes 1 through 7 (C.G.S. Section 38a-944(a)(8)) Class 9 Claims: Claims of Shareholders & Other Owners in their Capacity as Shareholders 0.00 0.00	Class 8 Claims:	Claims Based on Surplus or Contribution Notes, or Similar Obligations,	4,651,165.46	4,753,976.29
Class 9 Claims: Claims of Shareholders & Other Owners in their Capacity as Shareholders or Owners (C.G.S. Section 38a-944(a)(9)) 0.00 0.00 Total Claims Received 13,361,528.11 13,514,338.94 Other Liablilities Not Included Above: Amounts Due to Reinsurers 1,023.40 207,681.43 Funds Held for Others 934,805.60 953,190.83 Total Liabilities 935,829.00 1,160,872.26 Total Liabilities Excess (Deficiency) of Assets Over Liabilities (7,307,541.35) (8,522,547.00)		· · · · · · · · · · · · · · · · · · ·		
Other Liablilities Not Included Above: 13,361,528.11 13,514,338.94 Amounts Due to Reinsurers 1,023.40 207,681.43 Funds Held for Others 934,805.60 953,190.83 Total Other Liabilities 935,829.00 1,160,872.26 Total Liabilities 14,297,357.11 14,675,211.20 Excess (Deficiency) of Assets Over Liabilities (7,307,541.35) (8,522,547.00)	Class 9 Claims:	Claims of Shareholders & Other Owners in their Capacity as Shareholders	0.00	0.00
Other Liablilities Not Included Above: Amounts Due to Reinsurers 1,023.40 207,681.43 Funds Held for Others 934,805.60 953,190.83 Total Other Liablities 935,829.00 1,160,872.26 Total Liabilities 14,297,357.11 14,675,211.20 Excess (Deficiency) of Assets Over Liabilities (7,307,541.35) (8,522,547.00)			12 261 520 44	12 E1 / 220 D/
Amounts Due to Reinsurers 1,023.40 207,681.43 Funds Held for Others 934,805.60 953,190.83 Total Other Liabilities 935,829.00 1,160,872.26 Total Liabilities 14,297,357.11 14,675,211.20 Excess (Deficiency) of Assets Over Liabilities (7,307,541.35) (8,522,547.00)		i otal Cialms Received	13,301,526.11	13,514,336.94
Amounts Due to Reinsurers 1,023.40 207,681.43 Funds Held for Others 934,805.60 953,190.83 Total Other Liabilities 935,829.00 1,160,872.26 Total Liabilities 14,297,357.11 14,675,211.20 Excess (Deficiency) of Assets Over Liabilities (7,307,541.35) (8,522,547.00)	Other Liablilities No	t Included Above:		
Total Other Liabilities 935,829.00 1,160,872.26 Total Liabilities 14,297,357.11 14,675,211.20 Excess (Deficiency) of Assets Over Liabilities (7,307,541.35) (8,522,547.00)			•	207,681.43
Total Liabilities 14,297,357.11 14,675,211.20 Excess (Deficiency) of Assets Over Liabilities (7,307,541.35) (8,522,547.00)	Funds H	leld for Others		
Excess (Deficiency) of Assets Over Liabilities (7,307,541.35) (8,522,547.00)		Total Other Liabilities	935,829.00	1,160,872.26
	Total Liabilities		14,297,357.11	14,675,211.20
<u>Total Liabilities and Equity</u> 6,989,815.76 6,152,664.20	Excess (Deficiency) of Assets Over Liabilities		(7,307,541.35)	(8,522,547.00)
	Total Liabilities and Equity		6,989,815.76	6,152,664.20

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THE CONNECTICUT SURETY COMPANY IN LIQUIDATION STATEMENT OF RECEIPTS AND DISBURSEMENTS For Period of 02/06/02 and 3/31/03

Date Placed In Rehabilitation: February 6, 2002 Date Placed In Liquidation: May 17, 2002	Current Period 02/06/02 - 03/31/03	Cumulative 02/06/02 - 3/31/03			
RECEIPTS					
Marshaling of Estate Assets:					
Premium Receipts	1,957.50	1,957.50			
Proceeds from Sales:					
Sale of Company Assets to Capitol Transamerica Corporation	185,022.93	185,022.93			
Reinsurance Recoveries	32,055.60	32,055.60			
Agents Balances	0.00	0.00			
Collection of Affiliate Receivables	0.00	0.00			
Salvage and Subrogation Recoveries	4,403.72	4,403.72			
Recovery of Taxes Previously Paid	6,167.11	6,167.11			
Expenses Reimbursements	7,412.60	7,412.60			
Miscellaneous Income	12,242.41	12,242.41			
Receipts Before Investment Activities	249,261.87	249,261.87			
Interest and Dividend Receipts	218,555.38	218,555.38			
Proceeds from Sales and Maturities of:					
Short Term Investments Deposits	1,376,892.77	1,376,892.77			
Bonds - Capital Gains	33,437.50	33,437.50			
Receipts from Investment Activities	1,628,885.65	1,628,885.65			
Total Cash Receipts	1,878,147.52	1,878,147.52			
DISBURSEMENTS AND DISTRIBUTIONS					
Loss Payments	126,213.27	126,213.27			
LAE Payments	113,608.51	113,608.51			
Legal Fees	421,071.86	421,071.86			
Consulting Fees	293,053.42	293,053.42			
Salaries	148,723.94	148,723.94			
Employee Benefits	30,285.13	30,285.13			
Taxes	5,102.29	5,102.29			
Office Expenses	11,202.35	11,202.35			
Reinsurance Payments	360,930.96	360,930.96			
Disbursements	1,510,191.73	1,510,191.73			
Distributions:	0.00	0.00			
Disbursements & Distributions Before Investment Activities	1,510,191.73	1,510,191.73			
Investment Expenses	587.50	587.50			
Disbursements for Investment Activities	587.50	587.50			
Total Cash Disbursements & Distributions	1,510,779.23	1,510,779.23			
Net Increase (Decrease) in Cash	367,368.29	367,368.29			

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